

Message Text

CONFIDENTIAL

PAGE 01 MANILA 01276 01 OF 02 270618Z

ACTION EA-12

INFO OCT-01 ISO-00 SS-15 SP-02 PM-05 EB-08 SIG-01

MMO-01 INR-07 L-03 PRS-01 A-01 IO-13 EUR-12

NEA-10 /092 W

-----047117 270855Z /16

R 250752Z JAN 78

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 788

INFO AMEMBASSY BANGKOK

AMEMBASSY JAKARTA

AMEMBASSY KUALA LUMPUR

AMEMBASSY SINGAPORE

AMEMBASSY TOKYO

C O N F I D E N T I A L SECTION 1 OF 2 MANILA 1276

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E. O. 11652: GDS

TAGS: PFOR, XE, XP, ECON

SUBJECT: EAST ASIAN ECONOMIC POLICY REVIEW

REF: 77 STATE 299030, MANILA 0746

1. SUMMARY. THIS TELEGRAM REPLIES TO 77 STATE 299030 REQUESTING INPUTS INTO EAST ASIAN ECONOMIC POLICY REVIEW. PART I DEALS WITH GOALS AND OBJECTIVES, PART III WITH POLITICAL AND ECONOMIC DEVELOPMENTS IN 1977, AND PART III WITH COMMENTS ON U.S. RELATIONS WITH ASEAN. END SUMMARY.

2. PART I. GOALS AND OBJECTIVES. WE HAVE REVIEWED THE ECONOMIC ELEMENTS OF OUR RESPONSE TO THE 1977 PARM EXERCISE IN MANILA 3128 OF MARCH 2, 1977 AND OUR SUPPLEMENTAL SUBMISSION IN MANILA 5649 OF APRIL 15, 1977. OUR COMMENTS AND RECOMMENDATIONS THEREIN REMAIN VALID. DEVELOPMENTS SINCE THEN HAVE REINFORCED OUR CONCLUSIONS, PARTICULARLY
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PAGE 02 MANILA 01276 01 OF 02 270618Z

AS TO THE PROSPECTS OF BILATERAL ECONOMIC NEGOTIATIONS. WE BELIEVE WE SHOULD QUIETLY WIND DOWN THE TALKS AS WE HAVE BEGUN TO DO, AND ENCOURAGE THE GOP TO SOLVE PROBLEMS ON A STEP-BY-STEP OR CASE-BY-CASE BASIS. WE HAVE SUGGESTED CERTAIN REVISIONS IN THE GOALS AND OBJECTIVES DRAFT STATEMENT (STATE 295479) WHICH ARE INCORPORATED IN MANILA 0746.

3. PART II. POLITICAL AND ECONOMIC DEVELOPMENTS. FOR THE FORESEEABLE FUTURE, WE ENVISAGE THAT MARCOS WILL REMAIN IN POWER AND THAT THERE WILL BE CONTINUITY IN GOP POLITICAL AND ECONOMIC POLICIES. BESIDES CONTINUED EMPHASIS ON ECONOMIC GROWTH, THE GOP IS ALSO DEVOTING INCREASED ATTENTION TO RURAL DEVELOPMENT AND HOUSING. OVERALL, THE GOP NOW APPEARS TO BE PLACING HIGHER PRIORITY ON RESOLVING OUTSTANDING MILITARY BASE ISSUES AND PLACING THE US-RP SECURITY RELATIONSHIP ON A SOUND BASIS. FURTHER, THE GOP AGREES WITH THE USG ASSESSMENT THAT THERE IS NO PRESSING NEED AT THE MOMENT FOR AN ECONOMIC AGREEMENT AND THAT TRADE PROBLEMS CAN BE TACKLED IN THE MTN FORUM.

4. ECONOMIC GROWTH HAS FALLEN SHORT OF TARGETS, BUT STILL REPRESENTS RESPECTABLE PERFORMANCE IN THE FACE OF WORLDWIDE RECESSION AND INFLATION. REAL GNP GROWTH AT 6.3 PERCENT IN 1976 AND AN ESTIMATED 6.1 PERCENT IN 1977 WAS BELOW THE TARGETED 7 PERCENT FOR EACH YEAR. ON THE OTHER HAND, THE TRADE DEFICIT HAS APPARENTLY BEEN REDUCED, FROM \$1,060 MILLION IN 1976 TO PERHAPS \$838 MILLION IN 1977, AND THE OVERALL BOP MAY HAVE BEEN IN SURPLUS BY CA. \$170 MILLION AFTER TWO STRAIGHT YEARS OF SUBSTANTIAL DEFICITS. MEANWHILE, THERE HAS BEEN AN 18 PERCENT INCREASE IN FOREIGN DEBT FROM \$5,517 MILLION TO \$6,566 MILLION, AND IN INFLATION FROM 6 TO 8 PERCENT.
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PAGE 03 MANILA 01276 01 OF 02 270618Z

5. THE PHILIPPINES HAS MANAGED TO INCREASE EXPORTS AND DIVERSIFY MARKETS. COMMUNIST COUNTRIES WERE A MAJOR MARKET FOR SUGAR AND COCONUT PRODUCTS, INCLUDING COCONUT OIL, IN 1977, BUT WILL LIKELY BUY CONSIDERABLY LESS SUGAR IN 1978. THE GOP IS EXPECTED TO CONTINUE STRIVING FOR GREATER DIVERSIFICATION IN EXPORTS AND TO WIDEN ITS MARKETS IN NON-TRADITIONAL REGIONS, PARTICULARLY THE COMMUNIST COUNTRIES AND THE MIDDLE EAST. OVERSEAS MARKET PROSPECTS FOR TRADITIONAL EXPORTS (SUGAR, COPPER CONCENTRATES) WHICH CONTINUE TO CONSTITUTE A LARGE PART OF THE TOTAL, AND FOR FAST-EXPANDING NON-TRADITIONAL EXPORTS (GARMENTS), NEVERTHELESS, ARE CLOUDED.

6. WHILE THE GOP HAS DEMONSTRATED SKILL AND COMPETENCE IN MANAGING ITS EXTERNAL DEBT, MUCH DEPENDS ON CONTINUED RECOVERY AND DEMAND IN MAJOR EXPORT MARKETS (BASICALLY THE UNITED STATES AND JAPAN) AS WELL AS AN UPTURN IN EXPORT COMMODITY PRICES. THE GOP HAS MANAGED TO INCREASE THE

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PAGE 01 MANILA 01276 02 OF 02 270850Z
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C O N F I D E N T I A L SECTION 2 OF 2 MANILA 1276

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VOLUME OF ITS EXPORTS AND THUS RAISE THE LEVEL OF ITS
EARNINGS DESPITE LOW SUGAR AND COPPER PRICES. THE
DEBT SERVICE RATIO WILL LIKELY CONTINUE TO CREEP UPWARD
TO THE 20 PERCENT LEVEL WITHIN THE RELATIVELY NEAR
FUTURE.

7. PART III. U.S. RELATIONS WITH ASEAN. IN MANILA 3128
OF MARCH 2, 1977 WE SAID THAT ---"ASEAN'S GROWTH WILL BE
AS SLOW AND PROBLEMATIC AS THAT OF OTHER REGIONAL GROUP-
INGS IN THE PAST. WE SHOULD TREAT ASEAN WITH BENEVOLENT
REALISM, NOT AS A FETISH, BEARING IN MIND THAT OVER-ATTEN-
TION ON OUR PART CAN, FOR THE TIME BEING, AGGRAVATE VIET-
NAMESE HOSTILITY AND NEEDLESSLY SUMMON THE SPECTRE OF SEATO".
ASEAN HAS MADE FURTHER PROGRESS IN THE ENSUING TEN MONTHS.
ALSO, PLEASE SEE MANILA 13900 OF SEPTEMBER 2, 1977 WHICH
CONTAINS OUR ASSESSMENT ON THE EVE OF THE US/ASEAN ECONOMIC
CONSULTATIONS. ASEAN HAS CONTINUED TO DEVELOP A SENSE OF
IDENTITY AND PURPOSE. IT HAS SHOWN COHERENCE IN DEALING
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PAGE 02 MANILA 01276 02 OF 02 270850Z

WITH FRIENDS AND TRADING PARTNERS. IT IS IN OUR INTEREST
TO RECOGNIZE AND ENCOURAGE SUCH TRENDS. PRACTICALLY SPEAK-

ING, WE WILL NEVER BE ABLE TO AGREE WITH ALL OF ASEAN'S PURPOSES OR ACCEDE TO ALL ITS REQUESTS. OUR BEST STRATEGY IS TO PROCEED IN THOSE AREAS WHERE WE CAN MAINTAIN AN EFFECTIVE DIALOGUE. OUR PUBLIC PRONOUNCEMENTS SHOULD THEN BE COMMENSURATE WITH OUR ABILITY TO PRODUCE. NOTABLY, WE WILL HAVE TO OBTAIN THE COOPERATION OF AMERICAN BUSINESS, AND THAT WILL DEPEND IN LARGE MEASURE ON THE BUSINESS CLIMATE IN EACH INDIVIDUAL ASEAN COUNTRY AND THE PROSPECTS OF AN ASEAN REGIONAL MARKET. OUR STRENGTH LIES IN OUR MARKET FOR ASEAN PRODUCTS AND OUR VENTURE CAPITAL. WE SHOULD CONCENTRATE ON IMPROVING OUR MTN OFFERS AND OUR GSP SYSTEM, AND SEEK TO REMOVE IMPEDIMENTS TO AMERICAN INVESTMENT. AN EXPANDED TRADE PROMOTION PROGRAM, SPECIFICALLY USG SOLO TRADE FAIRS FROM TIME TO TIME, WILL GIVE RECOGNITION TO ASEAN AS A REGIONAL MARKET AND REAFFIRM OUR COMMITMENT TO THIS FREE MARKET ORIENTED REGION.

8. ASEAN AND US POSITIONS ON NORTH/SOUTH ISSUES ARE ON OPPOSING VALENCES, BUT IN PRACTICAL BILATERAL TERMS, WE HAVE MANAGED TO COOPERATE WITH THE PHILIPPINES ON INDIVIDUAL ISSUES, SUCH AS THE INTERANATIONAL SUGAR AGREEMENT. WE SHOULD THEREFORE, TAKE CARE THAT OUR CONSULTATIVE EXERCISE ON NORTH/SOUTH ISSUES DOES NOT GET IN THE WAY OF THE REAL WORLD WHERE WE CAN MAKE PROGRESS ON ITEMS SUCH AS SUGAR, TIN, AND PERHAPS COPPER AND RUBBER. WE SHOULD NOW EXAMINE THOSE AREAS WHERE WE SHOULD MOVE FROM CURRENT POLICY POSITIONS CONSISTENT WITH DOMESTIC POLITICAL REALITIES. THE PLIGHT OF LOW COMMODITY PRICES, FOR EXAMPLE, AFFLICTS NOT ONLY FOREIGN BUT ALSO AMERICAN FARMERS, AND IT IS IN THE USG'S INTEREST THAT WE SEEK STABILIZATION OF EXPORT EARNINGS, AS WE HAVE IN MAXIMIZING

CONFIDENTIAL

PAGE 03 MANILA 01276 02 OF 02 270850Z

DOMESTIC FARM INCOMES. IN SPITE OF A CERTAIN AMOUNT OF PROGRESS IN OUR POSTURE ON NORTH/SOUTH ISSUES, WE ARE STILL FAR APART VIS-A-VIS ASEAN AND, MORE IMPORTANTLY, ARE FALLING BEHIND OUR FRIENDS IN THE DEVELOPED COUNTRIES. EVEN THE JAPANESE ARE BEGINNING TO JOIN THE SCANDINAVIANS AND THE DUTCH, AND AT THE AUGUST ASEAN SUMMIT AGREED TO ENTER INTO A JOINT STUDY OF A STABEX SCHEME. WE NEED TO MOVE FARTHER AHEAD, AND THERE IS NO REASON WHY WE CANNOT, AS WAS EVIDENCED IN OUR SPONSORSHIP AND SUCCESSFUL SHEPHERDING OF THE INTERNATIONAL SUGAR AGREEMENT. WE SHOULD THEREFORE EXPLORE WITH THE GROUP OF 77 (AND NOT ASEAN ALONE) REPRESENTATIVES POSSIBILITIES FOR AN ACCOMMODATION OF VIEWS AND POSITIONS SUCH AS HAS BEEN SUGGESTED BY INDONESIAN MINISTER OF ECONOMY WIDJOJO (JAKARTA 346).

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLICIES, ECONOMIC REPORTS
Control Number: n/a
Copy: SINGLE
Draft Date: 25 jan 1978
Decaption Date: 20 Mar 2014
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978MANILA01276
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780040-0678
Format: TEL
From: MANILA
Handling Restrictions:
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780125/aaaaaulk.tel
Line Count: 222
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 35cda1e0-c288-dd11-92da-001cc4696bcc
Office: ACTION EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: STADIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: STADIS
Reference: 77 STATE 299030, 78 MANILA 746
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 03 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3717433
Secure: OPEN
Status: NATIVE
Subject: EAST ASIAN ECONOMIC POLICY REVIEW
TAGS: PFOR, ECON, XE, XP
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/35cda1e0-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014